GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3
ANSWERED ON:17.10.2008
RECOVERY OF LOANS THROUGH MUSCLE POWER
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Will the Minister of FINANCE be pleased to state:

(a) whether the Supreme Court in its recent verdict has warned the banks and financial institutions for using goondas or muscle power 10 recover loans from defaulters;

(b) if so,the details thereof;and

(c) the steps taken being taken by the Government to implement the above verdict by banks?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI PAW AN KUMAR BANSAL)

(a) to (c): HOll`ble Supreme Court, on an appc;:al (no.267 of 2007) filed by ICICI Bank Ltd. against the order of the Allahabad High Court h1 respect of a case filed by one of the borrowers of the bank has observed that the practice of hiring recovery agents who are muscleman,is deprecated and needs to be discouraged. Banks should resort to procedure recognized by law in cases where the borrower may have committed default in payment of their installments instead of taking resort to strong ann tactics.

In the Mid-Term Review of Annual Policy Statement (dated November 30, 2007), RBI has observed that in view of the rise in the number of litigations against banks for engaging recovery agents in the recent past,it is felt that the adverse publicity could result in serious reputational risk for the banking sector as a whole. Reserve Bank of India (RBI) has urged banks to follow prescribed guidelines while engaging recovery agents and has clarified that complaints received regarding abusive practices followed by a hank`s recovery agent would invite serious supervisory disapproval. RBI would consider imposing a temporary ban (or even a permanent ban in case of persistent abusive practices),for engaging recovery agents, on those banks where strictures have been passed/penalties have been imposed by a High Court/Supreme Court or against its Directors/Officers with regard to the abusive practices followed by their recovery agents.

RBI has issued guidelines on 24th April, 2008 on recovery agents engaged by banks.The RBI has advised the banks to ensure verificaLon of antecedents of employees of recovery agencies engaged by them.Police verification ha:3 been suggested as one of the pre-employment due diligence measures. RBI has also stipulated that all recovery agents should undergo a training-cum-certification programme offered by Indian Institute of Banking and Finance (IIBF).